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...al Report Year Ended January 29, 1984

"R" US

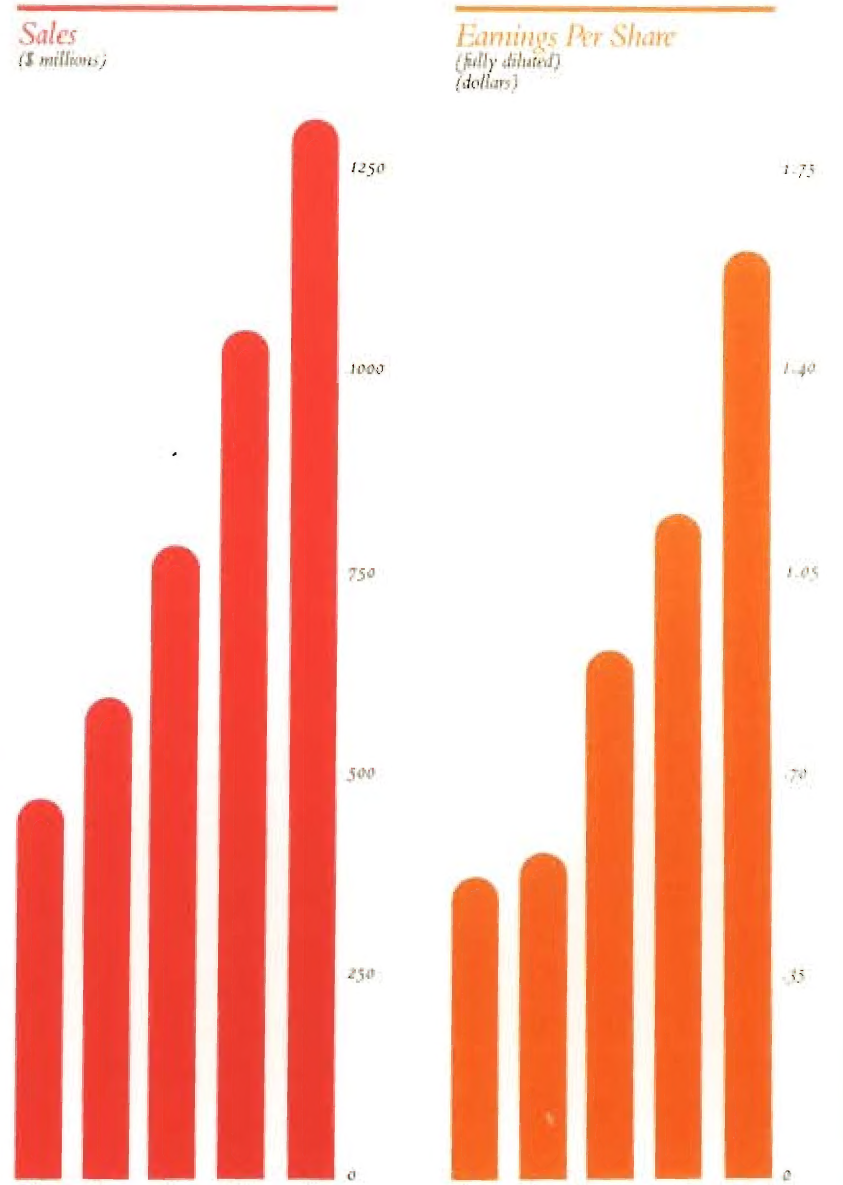
Toys "R" Us is the world's largest and fastest growing toy specialty retail chain in terms of both sales and earnings. At January 29, 1984, the Company operated 169 toy stores (serviced from 13 warehouse/distribution centers), four conventional department stores and two Kids "R" Us children's clothing stores.

Contents

Financial Highlights

(In thousands except per share information)	January 29 1984	January 30 1983	January 31 1982	February 1 1981	February 3 1980
					Fiscal year ended
Operations:					
Net sales	$1,319,642	$1,041,735	$783,285	$597,332	$480,317
Net earnings	92,317	64,162	48,920	28,893	26,776
Net earnings per share[a]					
Primary	1.62	1.17	.94	.58	.54
Fully diluted	1.62	1.16	.93	.57	.53
Financial Position at Year-End:					
Working capital	220,442	157,405	137,180	91,425	77,223
Total assets	820,228	559,008	442,497	311,709	231,658
Long-term obligations	54,845	41,755	87,590	41,331	49,277
Stockholders' equity	459,723	323,476	205,849	150,821	121,105

[a] *Restated for the four years ended January 30, 1983, for the three-for-two stock split effected July 26, 1983.*



To Our Stockholders

Highlights of the Past Year

Performance and Expansion—Toy Stores

We are pleased to report that the year ended January 29, 1984 was another year of record sales and earnings. Our sales reached $1.320 billion, a 26.7% increase over last year and our net earnings rose 44% to $92.3 million.

Toys "R" Us has demonstrated a remarkable and consistent growth record. Our share of the U.S. toy market has risen from 5% in 1978 to approximately 12½% in 1983; net earnings has risen from $17 million in 1978 to over $92 million in 1983—an annual growth rate of 40%.

We now have 169 toy stores operating in 26 states, four conventional department stores, and four Kids "R" Us children's clothing stores.

Our stores continued to show gains in productivity with comparable toy store sales rising 13½% in 1983. We further strengthened our position as a leading retailer of video games and home computers. Electronic items contributed approximately 17% to sales during 1983.

We have been expanding our square footage approximately 18% a year by adding new stores in existing markets and by entering a new geographic region each year. In 1983, we opened 25 new stores, including six stores in a new market centered in the Atlanta, Georgia area.

Committed to the idea that our business is universal in nature, we moved into the international toy merchandising arena by providing technical assistance and buying services to Alghanim Industries, which successfully launched its first toy store in Kuwait.

Diversification into Children's Apparel Stores—Kids "R" Us

We successfully inaugurated our new Kids "R" Us clothing store division by opening two stores—one in Paramus, New Jersey and one in Brooklyn, New York during July 1983. In March 1984 we opened two additional stores. The Kids "R" Us retailing format is patterned after the successful Toys "R" Us model we have developed over the past thirty years. We are pleased with the initial performance of these first Kids "R" Us stores.

Management

People, of course, are an integral element of our strength. A number of talented individuals with proven expertise moved into positions of responsibility at our Company during 1983.

Michael Goldstein became Senior Vice President, Treasurer and Chief Financial Officer. Formerly, he was Senior Executive Vice President-Operations and Finance of Lerner Stores Corporation and prior to May 1979 he was a partner with Ernst & Whinney, Certified Public Accountants. Joseph R. Baczko became President of our International Division. Before joining us, Mr. Baczko was Chief Executive Officer of the Europe-Africa-Middle East Group of Max Factor and Company. Additionally, Ernest V. Speranza was appointed to the new post of Vice President—Advertising and John Livingston, General Manager of our Department Store Division, was promoted to President of this Division.

Future Plans

Toys "R" Us—United States

Our plans for 1984 call for about 30 new toy stores, including a new market centered in Cincinnati, Ohio which will enable us to serve customers in southern Ohio and parts of Kentucky and Indiana. Consistent with our long-term growth goals, we are well along in our 1985 store opening plans. Our new market for 1985 will be centered in Buffalo-Rochester, New York where we will serve customers in upstate New York and northwestern Pennsylvania.

We are changing our floor layout this spring, the result of which will be to add about 2,500 square feet of selling space to our new store prototype and additional selling space to existing stores. This change not only will allow us to present more merchandise to the customer, but will also permit more advantageous displays of certain types of items, such as bicycles and juvenile furniture.

To increase productivity, we will be testing in some stores a UPC scanning, price look-up system similar to that used in food markets. We believe it can help speed customers through check-out lines and create other operating efficiencies.

Kids "R" Us Expansion

Our 1984 plans call for the opening of six to eight Kids "R" Us stores—which will give us eight to ten stores in operation by the end of 1984. We invite you to read the next section of this report to learn more about our Kids "R" Us stores.

International Developments

Canada—Our wholly-owned Canadian subsidiary expects to open three or four stores in the greater Toronto area during 1984. An executive and buying office, as well as a warehouse distribution center located in that vicinity, will service these stores.

United Kingdom—Preliminary plans call for opening our first British stores in 1985 through a wholly-owned subsidiary.

Singapore—We have entered into a joint venture agreement with Metro Holdings, Ltd., for the opening of toy stores in Singapore. The first store is scheduled to open by September 1984.

Kuwait—Additional store openings are planned for the future in the Middle East pursuant to our licensing and technical assistance agreements covering that region.

Summary

The expanding world of Toys "R" Us is being built upon a solid foundation. Our growth will continue to be monitored closely by all levels of management to maintain the discipline necessary for our success. We have great confidence in continuing growth for our Company in the specialty retailing of toys and children's clothing.

We recognize the dedicated service of employees throughout the Company who have contributed to this

year's outstanding performance and extend to all of our co-workers our most heartfelt appreciation for their many talents and efforts.

We also very much value the excellent working relationships we have shared for many years with our toy suppliers and the new relationships we have formed with our children's clothing suppliers.

Last, but not least, we sincerely thank all of our customers for their loyal patronage. We rededicate ourselves to being the most trusted store in town!

Sincerely,

Norman Ricken
President and
Chief Operating Officer

Charles Lazarus
Chairman and
Chief Executive Officer

March 30, 1984

TOYS "R" US

Toys "R" Us is the world's largest and fastest growing toy specialty retail chain in terms of both sales and earnings. In each of our 169 stores nationwide, we offer our customers:

- *an extraordinary assortment of quality, brand name, nationally advertised merchandise.*
- *true low prices 365 days a year.*
- *mammoth quantities of stock.*
- *a liberal, money-back, no-questions-asked return policy.*
- *convenient locations near major highways and shopping malls.*
- *ample parking.*
- *45,000 square feet of building space designed for easy shopping.*


commodore ONLY
FOR THE ATARI 2600 VIDEO COMPUTER SYSTEM
FOR ATARI 2600 ONLY
Q*bert
MASH
GORF
RIVER RAID
FOR ATARI 5200 ONLY
CBS Video Games
FOR IBM ONLY
ATARI 800XL HOME COMPUTER

Retailing in the toy industry creates unlimited opportunities for sales and growth because of changing consumer patterns.

Over a thirty year period, Toys "R" Us has evolved unique merchandising methods to meet consumer demand—as well as to increase our market share.

Using central planning and computerized systems of checks and balances which operate between corporate headquarters, thirteen distribution warehouses, and every store in our network, we are able to monitor daily all categories of merchandise from placement of our order to ultimate sale to the customer. This permits us to forecast trends early and to increase or decrease orders accordingly in order to maximize sales and earnings.


Cabbage Patch Kids


BIKES R US
MULTI-SPEED
LIGHTWEIGHTS
FIRST BIKES


Care Bears
Care Bears
Care Bears
Care Bears

Toys "R" Us is in the toy business 365 days a year—not just at Christmas—because we believe that there is an excellent year-round market for toys.

Whether our customers want a plush animal, a doll, an action figure, a game, a bicycle, or just about any other toy related product on the market, they know Toys "R" Us will have in stock *everyday of the year* the newest, most exciting selections sold at *everday low prices!*

Over the years we also have expanded our merchandise categories to include children's books . . . computers and video games . . . sporting equipment for the family . . . backyard swimming pools, playgrounds and swing sets, as well as wearing apparel.

KiDS "R" US

Partly as a result of profitably selling children's clothing in our Toys "R" Us stores, we formally inaugurated during 1983 our new . . . Kids "R" Us stores.

We are committed to the idea that the unique retailing formula of Toys "R" Us can be successfully transferred to Kids "R" Us.

Like Toys "R" Us, Kids "R" Us stands for:

- *an extraordinary selection of quality, brand-name, nationally advertised merchandise.*
- *true low prices 365 days a year.*
- *mammoth quantities of stock.*
- *a liberal, money-back, no-questions-asked return policy.*


KIDS 'R' US
DREAM MACHINE


GUYS 'R' US

Open the door to Kids "R" Us... and walk into an attractively designed, 20,000 square foot space which is at least five times larger than most children's apparel stores. Complete clothing departments serve girls and boys from birth to age twelve.

All departments offer a captivating array of quality, brand-name, fashionably designed merchandise—selling at everyday low prices.

Rainbow color choices, extensive size ranges, as well as "this season's new looks," are attractively displayed.

But we have added another dimension to Kids "R" Us—one which is very rare in children's retailing—*Service*.

Kids "R" Us is staffed with knowledgeable, friendly sales people who can assist in the dressing room, on the floor locating a size, in coordinating an outfit, in selecting an appropriate gift—anywhere service is needed by the customer.


BOYS 'R' US
USA
USA
USA
TRAINING

One-stop shopping for kids clothing includes a brand-name shoe department, an accessory and gift shop . . . even a photo studio!

Kids "R" Us stores are colorful, festive, fun environments. To help make shopping more pleasant for parent and child, each store is set-up with:

- *a recreational play area for the younger children.*
- *wall mounted games located throughout the store.*
- *gaily colored shopping carts with strung beads to keep the littlest Kids "R" Us kid amused.*
- *child-size water fountains and changing tables for infants.*
- *super-sized giraffes on display throughout the store.*

Kids "R" Us is unique in children's apparel retailing . . . an innovation whose time has come!

Management's Discussion—Results of Operations and Financial Condition

Results of Operations

The Company has experienced strong sales growth in each of its last three years; sales were up 26.7% in fiscal 1984, 33.0% in fiscal 1983, and 31.1% in fiscal 1982. While part of the growth is attributable to the opening of 68 new toy stores during the three-year period, a substantial portion is due to comparable toy store sales increases as follows: fiscal 1984—13.5%, fiscal 1983—19.5%, and fiscal 1982—16.3%. Management believes that the Company increased its market share by approximately 1½% in each of the last two fiscal years, so that it now has approximately 12½% of the total United States retail toy market.

Cost of sales as a percentage of sales decreased .9% in fiscal 1984 compared to fiscal 1983 primarily due to a LIFO credit in fiscal 1984 versus a LIFO charge in the prior year. The fiscal 1983 cost of sales percentage was 1% higher than in fiscal 1982 due principally to increased sales of electronic items which have a lower gross margin than the overall average. Electronic items accounted for approximately 17% of fiscal 1984 sales compared with 18% in fiscal 1983 and 11% in fiscal 1982.

Selling, advertising, general and administrative expenses as a percentage of sales, decreased to 19.3% in fiscal 1984 from 19.8% in fiscal 1983 and 21.3% in fiscal 1982. These decreases are due to proportionately larger sales increases relative to these expenses.

Interest expense decreased in fiscal 1984 from fiscal 1983 as a result of the conversion of the 9¼% Convertible Subordinated Debentures to common stock in fiscal 1983. Interest expense remained relatively constant between fiscal years 1983 and 1982.

Interest income increased in fiscal 1984 over fiscal 1983 due to higher cash balances available for investment. Interest income decreased in fiscal 1983 from fiscal 1982 due to falling interest rates which more than offset increased investments.

During fiscal 1982, the Company had gains from the sale of real estate not used in current operations. While the Company still owns real estate not used in operations which is available for disposal, no gains were recognized in fiscal 1983 or 1984 and significant future gains or losses are not anticipated.

For an explanation of the impact of inflation on the business, see Note 9 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

The Company is in a strong financial position as evidenced by the following:

	Year ended January 29 1984	January 30 1983	January 31 1982
Net working capital (in millions)	$220.4	$157.4	$137.2
Long-term debt to equity (including capital leases)	11.9%	12.9%	42.6%
Long-term debt to equity (excluding capital leases)	7.0%	5.7%	30.6%

The number of toy stores increased to 169 at January 29, 1984 from 144 at January 30, 1983, 120 at January 31, 1982, and 101 at February 1, 1981. Approximately 30 new store openings are planned for fiscal 1985 in United States markets and an additional three or four toy stores are scheduled in the new Toronto, Canada market. The Company opened two Kids "R" Us children's clothing stores in July 1983, two more in March 1984, and plans to have eight to ten in operation by the end of fiscal 1985. The Company also operated 10 conventional department stores in fiscal 1982 but closed 6 marginal stores during fiscal 1983 to reduce the number to 4 in fiscal 1984.

Through fiscal 1981, the Company leased most of its new real estate under long-term leases with options to renew. In fiscal 1982, the increase in long-term mortgage interest rates as well as depreciation benefits arising from changes in the Federal tax laws made ownership of real estate more economical than leasing. Accordingly, most real estate constructed in fiscal 1982, 1983, and 1984 is owned by the Company and the Company plans to continue this policy into fiscal 1985.

In the last three fiscal years, the Company financed most of its real estate acquisitions through internally generated funds, augmented by $50 million of 9¼% Convertible Subordinated Debentures issued in August 1981. These Debentures were converted in their entirety to shares of common stock on November 4, 1982.

Because of the seasonal nature of the business (approximately 50% of sales take place in the fourth quarter), cash typically declines from the beginning of the year through October as inventory is built up for the Christmas season and funds are used for land purchases and construction costs for new stores which usually open in the third quarter of the year. The Company expects that cash requirements will continue to be met primarily through operations.

For fiscal 1985, capital requirements for real estate, store and warehouse fixtures and equipment, leasehold improvements, betterments, and other additions to property and equipment are estimated at $125 million, which the Company plans to finance through operations, cash balances, and to a lesser extent, industrial revenue bonds. International operations will be financed primarily through short-term borrowings.

Market Information

The Company's Common Stock is listed on the New York Stock Exchange. The following table reflects the high and low prices based on New York Stock Exchange trading since January 1, 1982. Prices (rounded to the nearest one-eighth) have been restated to reflect the three-for-two stock splits effected on July 26, 1983 and July 22, 1982. Price ranges are for calendar quarters.

The Company has followed the policy of reinvesting earnings in the business and consequently has not paid any cash dividends. At the present time, no change in this policy is under consideration by the Board of Directors. The payment of cash dividends in the future will be determined by the Board of Directors in the light of conditions then existing, including the Company's earnings, financial requirements and condition, opportunities for reinvesting earnings, business conditions and other factors.

The number of shareholders of common stock on March 16, 1984, was approximately 9,500.

	High	*Low*
1983		
1st Quarter	$34⅛	$26
2nd Quarter	46	33⅞
3rd Quarter	48⅝	39½
4th Quarter	47¼	35⅝
1982		
1st Quarter	15¾	12¼
2nd Quarter	19⅝	15⅝
3rd Quarter	22⅜	14⅝
4th Quarter	37¼	20⅝

Report of Management

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with Toys "R" Us management. The accompanying financial statements have been prepared from accounting records which management believes fairly and accurately reflect the operations and financial position of the Company. Management has established a system of internal controls to provide reasonable assurance that assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

The Company's comprehensive internal audit program provides for constant evaluation of the adequacy of and adherence to management's established policies and procedures. The Company has distributed to key employees its policies for conducting business affairs in a lawful and ethical manner.

The financial statements of the Company have been examined by Touche Ross & Co., independent certified public accountants. Their accompanying report is based on an examination conducted in accordance with generally accepted auditing standards, including a review of internal accounting controls and tests of accounting procedures and records.

The Audit Committee of the Board of Directors is composed solely of outside directors. The Audit Committee meets periodically and privately with the independent accountants as well as with Toys "R" Us management, to review accounting, auditing, internal accounting controls and financial reporting matters.

Charles Lazarus
Chairman of the Board

Michael Goldstein
Senior Vice President—Finance

Auditor's Report

Board of Directors and Stockholders
Toys "R" Us, Inc.
Rochelle Park, New Jersey

We have examined the consolidated balance sheets of Toys "R" Us, Inc. and subsidiaries at January 29, 1984 and January 30, 1983, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended January 29, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated statements referred to above present fairly the financial position of Toys "R" Us, Inc. and subsidiaries at January 29, 1984 and January 30, 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 29, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Certified Public Accountants

March 15, 1984
New York, New York

Statements of Consolidated Earnings

(In thousands except per share information)	*Fiscal year ended* January 29 1984	January 30 1983	January 31 1982
Net sales	$1,319,642	$1,041,735	$783,285
Costs and expenses:			
Cost of sales	881,258	705,260	522,808
Selling, advertising, general and administrative	254,448	206,378	166,930
Depreciation and amortization	13,428	11,060	8,900
Interest expense	2,404	4,285	4,086
Interest income	(10,138)	(9,570)	(11,649)
Gain on sale of property	—	—	(1,910)
	1,141,400	917,413	689,165
Earnings before taxes on income	178,242	124,322	94,120
Taxes on income (Note 6)	85,925	60,160	45,200
Net Earnings	$ 92,317	$ 64,162	$ 48,920
Net earnings per common and common equivalent share (Note 8)	$1.62	$1.17	$.94
Net earnings per common share, assuming full dilution (Note 8)	$1.62	$1.16	$.93

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands)	*January 29 1984*	*January 30 1983*
Assets		
Current Assets:		
Cash and short-term investments	$235,838	$134,516
Accounts and other receivables, less allowance for doubtful accounts of $419 and $704	17,909	17,508
Merchandise inventories (Note 1)	264,192	191,950
Prepaid expenses and other	1,537	705
Total Current Assets	519,476	344,679
Property and Equipment (Notes 1, 2 and 3):		
Real estate, net of accumulated depreciation of $8,119 and $5,901	184,500	120,836
Other, net of accumulated depreciation and amortization of $32,473 and $28,048	85,264	65,882
Leased Property Under Capital Leases, net of accumulated depreciation of $12,670 and $11,530 (Note 4)	15,998	17,138
Other Assets	14,990	10,473
	$820,228	$559,008
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$184,504	$ 82,278
Accrued expenses, taxes and other liabilities	79,281	66,011
Federal income taxes payable (Note 6)	33,167	36,948
Current portion:		
Long-term debt (Note 3)	1,260	1,281
Obligations under capital leases (Note 4)	822	756
Total Current Liabilities	299,034	187,274
Deferred Income Taxes Payable (Note 6)	8,708	8,540
Long-Term Debt (Note 3)	30,913	17,047
Obligations Under Capital Leases (Note 4)	21,850	22,671
Commitments and Contingencies (Note 4)		
Stockholders' Equity (Note 5):		
Common stock par value $.10 per share: Authorized 200,000,000 shares Issued 54,054,294 and 36,004,858	5,405	3,600
Additional paid-in capital	191,732	147,745
Retained earnings	274,205	183,750
Less: Treasury shares, at cost	(4,352)	(4,352)
Receivable from exercise of stock options	(7,267)	(7,267)
	459,723	323,476
	$820,228	$559,008

See notes to consolidated financial statements.

Statements of Consolidated Changes in Financial Position

(In thousands)	*Fiscal year ended* January 29 1984	January 30 1983	January 31 1982
Increase (decrease) in cash and short-term investments from:			
Operations			
Net earnings	$ 92,317	$ 64,162	$ 48,920
Add non-cash items			
Depreciation and amortization	13,428	11,060	8,900
Deferred income taxes	168	3,126	1,478
	105,913	78,348	59,298
Working capital changes			
Accounts and other receivables	(401)	(2,984)	(2,549)
Merchandise inventories	(72,242)	(51,293)	(37,536)
Accounts payable, accrued expenses and taxes	111,715	41,593	28,023
Other	(832)	3,305	(2,153)
Net funds from operations	144,153	68,969	45,083
Financing			
Short-term net	45	287	(656)
Long-term borrowings	15,100	6,151	50,000
Long-term debt repayments	(2,055)	(52,273)	(3,085)
Issuance of common stock in exchange for convertible subordinated debentures	—	48,790	—
Exercise of stock options	43,992	4,704	6,108
Net funds from financing	57,082	7,659	52,367
Funds available for investment	201,235	76,628	97,450
Investment in property and equipment and other			
Additions to property and equipment	(97,087)	(68,142)	(69,402)
Sale of property and equipment	1,753	4,428	4,100
Other—net	(4,579)	(1,781)	15,026
Net funds used for investments	(99,913)	(65,495)	(50,276)
Cash and short-term investments			
Increase during year	101,322	11,133	47,174
Beginning of year	134,516	123,383	76,209
End of year	$235,838	$134,516	$123,383

See notes to consolidated financial statements.

Statements of Consolidated Stockholders' Equity

	Issued	
(In thousands except shares information)	*Shares*	*Amount*
Balance, February 1, 1981	13,576,923	$1,358
Net earnings for year	—	—
Exercise of stock options	601,350	60
Tax benefit from exercise of non-qualified stock options	—	—
Additional credits/(charges) relating to the Plan of Reorganization April 6, 1978	(78,363)	(8)
Three-for-two stock split effected in the form of a 50% stock dividend payable July 21, 1981	7,047,726	705
Balance, January 31, 1982	21,147,636	2,115
Three-for-two stock split effected in the form of a 50% stock dividend payable July 22, 1982	10,573,113	1,057
Net earnings for year	—	—
Conversion of 9¼% Convertible Subordinated Debentures	2,127,527	213
Exercise of stock options	2,156,582	215
Tax benefit from exercise of non-qualified stock options	—	—
Balance, January 30, 1983	36,004,858	3,600
Three-for-two stock split effected in the form of a 50% stock dividend payable July 26, 1983	18,000,699	1,800
Net earnings for year	—	—
Exercise of stock options	48,737	5
Tax benefit from exercise of non-qualified stock options	—	—
Balance, January 29, 1984	54,054,294	$5,405

See notes to consolidated financial statements.

Common stock In treasury Shares	Common stock In treasury Amount	Additional paid-in capital	Retained earnings	Receivable from exercise of stock options	Total
(333,900)	$(4,352)	$ 81,323	$ 72,492	$ —	$150,821
—	—	—	48,920	—	48,920
—	—	4,313	—	(3,490)	883
—	—	5,258	—	—	5,258
—	—	8	—	—	—
(166,950)	—	—	(738)	—	(33)
(500,850)	(4,352)	90,902	120,674	(3,490)	205,849
(250,425)	—	—	(1,086)	—	(29)
—	—	—	64,162	—	64,162
—	—	48,577	—	—	48,790
—	—	7,637	—	(3,777)	4,075
—	—	629	—	—	629
(751,275)	(4,352)	147,745	183,750	(7,267)	323,476
(375,637)	—	—	(1,862)	—	(62)
—	—	—	92,317	—	92,317
—	—	394	—	—	399
—	—	43,593	—	—	43,593
(1,126,912)	$(4,352)	$191,732	$274,205	$(7,267)	$459,723

Notes to Consolidated Financial Statements

Fiscal years ended January 29, 1984, January 30, 1983 and January 31, 1982

1. Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries for the 52 weeks ended January 29, 1984, January 30, 1983 and January 31, 1982. All material intercompany balances and transactions have been eliminated.

B. Merchandise Inventories

Merchandise inventories for the toy and children's clothing store operations, which represent over 97% of total inventories, are stated at the lower of LIFO cost (last-in, first-out) or market as determined by the retail inventory method. The LIFO method results in a better matching of costs and revenues. Information related to the FIFO (first-in, first-out) method may be useful in comparing operating results to other companies not on LIFO. On a supplemental basis, if inventories had been valued at the lower of FIFO cost or market, inventories would have increased by $9,473,000 and $12,983,000 at January 29, 1984 and January 30, 1983, respectively. Cost of merchandise inventories for the department store operations continue to be recorded on the FIFO basis.

C. Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, or where applicable, the terms of the respective leases, whichever is shorter.

D. Preopening Costs

Preopening costs, which consist primarily of promotion, occupancy, and payroll expenses, are amortized over expected sales to the end of the fiscal year in which the store opens.

E. Capitalized Interest

Interest on borrowed funds is capitalized during construction of property and is amortized by charges to earnings over the depreciable life of the related asset. During the years ended January 29, 1984, January 30, 1983 and January 31, 1982, $1,536,000, $1,576,000, and $1,698,000 of interest was capitalized, respectively.

F. Compensated Absences

Vacation benefits are accrued as earned.

G. Investment Tax Credit

Benefits from the investment tax credit are recognized in the year utilized, under the flow-through method.

2. Property and Equipment

(In thousands)	*Useful Life (In years)*	*January 29 1984*	*January 30 1983*
Land		$ 66,357	$ 41,704
Buildings	20–45	115,543	84,157
Furniture and equipment	5–12½	76,582	60,625
Leaseholds and leasehold improvements	12½–45	41,155	33,305
Construction in progress		10,719	876
		310,356	220,667
Less accumulated depreciation and amortization		40,592	33,949
		$269,764	$186,718

3. *Long-Term Debt*

(In thousands)	*January 29 1984*	*January 30 1983*
Industrial revenue bonds[a]	$27,519	$12,734
Mortgage notes payable at annual interest rates from 5½% to 8½%[b]	2,994	3,468
Other	1,660	2,126
	32,173	18,328
Less current portion	1,260	1,281
	$30,913	$17,047

[a] *At January 29, 1984, certain industrial revenue bonds are collateralized by property and equipment with an aggregate carrying value of approximately $9,300,000. In addition, unexpended proceeds of $8,400,000 (included in Other Assets) are held in trust for payment of future construction costs. The bonds have fixed or variable interest rates with an effective overall interest rate of 7.1% at January 29, 1984.*

[b] *Mortgage notes payable are collateralized by property and equipment with an aggregate carrying value of approximately $5,640,000 at January 29, 1984.*

The annual maturities of principal amounts of long-term debt at January 29, 1984, are as follows:

(In thousands) *Fiscal year ending in*	*Amount*
1985	$ 1,260
1986	1,225
1987	1,184
1988	1,030
1989	656
1990 and subsequent	26,818
	$32,173

4. *Leases*

The Company leases a major portion of the real estate used in its operations. Most leases require the Company to pay real estate taxes and other expenses; some require additional amounts based on percentage of sales.

Obligations under capital leases require minimum payments as follows:

(In thousands) *Fiscal year ending in*	*Amount*
1985	$ 2,927
1986	2,968
1987	2,929
1988	2,848
1989	2,858
1990 and subsequent	30,752
Total minimum lease payments	45,282
Less amount representing interest	22,610
Obligations under capital leases	$22,672

Minimum rental commitments (excluding renewal options) under noncancellable operating leases having a term of more than one year as of January 29, 1984 were as follows:

(In thousands) *Fiscal year ending in*	*Gross minimum rentals*	*Sublease income*	*Net minimum rentals*
1985	$ 17,523	$ 1,242	$ 16,281
1986	17,490	1,244	16,246
1987	17,350	1,191	16,159
1988	17,662	1,154	16,508
1989	17,604	889	16,715
1990 and subsequent	272,778	5,891	266,887
	$360,407	$11,611	$348,796

Total rental expense was as follows:

			Year ended
(In thousands)	*January 29 1984*	*January 30 1983*	*January 31 1982*
Base rent	$17,948	$16,331	$13,477
Additional amounts computed as percentages of sales	2,388	1,817	1,475
	20,336	18,148	14,952
Less sublease income	1,297	1,315	1,385
	$19,039	$16,833	$13,567

5. Stock Options[a]

A. Key Executive Stock Options

In April 1978, pursuant to their employment agreements, four key executive officers were granted options to purchase 6,075,000 shares of common stock at an exercise price of $2.15 per share. In February 1981, August 1982 and January 1983, these officers exercised options for 2,025,000, 92,784, and 2,100,000 shares, respectively, leaving a balance of 1,857,216, all of which are exercisable. The employment agreements also provide that these executives may borrow from the Company, for the purpose of exercising these options, up to 80% of the exercise price of the options. These amounts are repayable five years after the exercise date, with interest at 6% per annum. Amounts borrowed to date are shown as a reduction of Stockholders' Equity. No compensation expense has been reflected with respect to the issuance of these options.

B. Stock Option Plan

In April 1978, the Board of Directors adopted a non-qualified stock option plan whereby the Company may grant options for the purchase of up to 6,075,000 shares of its common stock to key employees (excluding the four key executives). The exercise price per share of options granted is the market price of the Company's common stock on the date of grant. That plan, as amended in December 1981 and approved by the shareholders in July 1982, permits currently outstanding options and future grants to be treated as incentive stock options to the extent permitted by law. Options become exercisable four years and nine months from the date of grant (although this may be accelerated due to retirement or death). Incentive stock options granted prior to June 1982 must be exercised within five years of the date of grant

while those granted subsequent thereto and all non-qualified options may be exercised up to ten years from the date of grant. At January 29, 1984, options to purchase 2,117 shares were exercisable.

Transactions are summarized as follows:

	Incentive	Non-Qualified	Shares Under Option Price Range
Outstanding February 1, 1981	2,205,217	577,133	$2.15– 5.63
Granted	842,701	111,748	10.72
Exercised	(3,037)	—	2.15– 5.48
Cancelled	(282,150)	—	2.15–10.72
Outstanding January 31, 1982	2,762,731	688,881	2.15–10.72
Granted	708,642	194,732	18.08–26.67
Exercised	(769,741)	(272,347)	2.15–18.08
Cancelled	(192,163)	—	2.15–18.08
Outstanding January 30, 1983	2,509,469	611,266	2.15–26.67
Granted	534,735	246,291	35.81–43.94
Exercised	(20,400)	(28,337)	2.15–39.59
Cancelled	(215,506)	—	3.33–39.59
Outstanding January 29, 1984	2,808,298	829,220	2.15–43.94

All outstanding options expire at dates ranging from May 1, 1984 to January 4, 1994. At January 29, 1984, 1,334,504 shares were available for future grant.

C. Reserved Shares

At January 29, 1984, an aggregate of 6,829,238 shares of authorized common stock is reserved for the options noted above.

D. Tax Benefit from Non-Qualified Options

The exercise of non-qualified stock options results in state and federal income tax benefits to the Company equal to the difference between the market price at the date of exercise (or six months later for officers) and the option price. During the years ended January 29, 1984, January 30, 1983 and January 31, 1982, $43,593,000, $629,000 and $5,258,000, respectively, was credited to additional paid-in capital.

E. On March 6, 1984, the Board of Directors amended the Company's Stock Option Plan to add an additional 2,000,000 shares of common stock available for grant and extend the term of the Plan to March 5, 1994. In addition, the Board approved the grant of stock options for 750,000 shares to two officers pursuant to a separate Stock Option Plan and Agreement. Both actions are subject to stockholder approval.

(a) *All numbers of shares and prices have been restated for the three-for-two stock splits effected on July 26, 1983, July 22, 1982, July 21, 1981 and July 28, 1980.*

6. Taxes on income

The provision for taxes on income consists of the following:

(In thousands)	Year ended January 29 1984	January 30 1983	January 31 1982
Current			
Federal	$74,132	$48,474	$37,522
State	11,625	8,560	6,200
	85,757	57,034	43,722
Deferred federal	168	3,126	1,478
Total	$85,925	$60,160	$45,200

Deferred income taxes result from timing differences in the recognition of certain income and expense items (primarily depreciation) for tax and financial statement purposes.

A reconciliation of the federal statutory tax rate with the effective tax rate follows:

	Year ended		
	January 29 1984	*January 30 1983*	*January 31 1982*
Statutory tax rate	46.0%	46.0%	46.0%
State income taxes, net of federal income tax benefit	3.5	3.7	3.6
Investment tax and jobs earned credits	(1.3)	(1.3)	(1.2)
Capital gains	—	—	(.4)
Effective tax rate	48.2%	48.4%	48.0%

The Company's federal income tax returns have been examined through the year ended February 1, 1981 by the Internal Revenue Service.

7. Profit-Sharing Plan

The Company has profit-sharing plans for eligible employees, which may be terminated at its discretion. Provisions of $8,346,000, $6,652,000, and $4,806,000 have been charged to operations in the years ended January 29, 1984, January 30, 1983, and January 31, 1982, respectively.

8. Net Earnings Per Common Share

Net earnings per common and common equivalent share is computed by dividing net earnings by the weighted average number of common shares outstanding after reduction for treasury shares and assuming exercise of dilutive stock options computed by the treasury stock method using the average market price during the year. For the period applicable, net earnings is adjusted for interest on convertible debentures, net of tax, and shares outstanding assumes conversion of the 9¼% Convertible Subordinated Debentures.

Net earnings per common share, assuming full dilution, is computed in the same manner using the greater of the average or year-end market price for the treasury stock method.

Average weighted numbers of shares used in computing net earnings per common share were as follows:

	Year ended		
	January 29 1984	*January 30 1983*[a]	*January 31 1982*[a]
Common and common equivalent shares	56,930,000	55,936,000	53,088,000
Common shares, assuming full dilution	56,930,000	56,262,000	53,590,000

[a] *Restated for the three-for-two stock split effected on July 26, 1983.*

9. Inflation Accounting (unaudited)

As required by Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices," the Company must provide supplemental information concerning the effects of changing prices on its financial statements. This information reports: (1) the effect of a rise in the general price level on the purchasing power of the dollar (general inflation) and (2) the specific price changes in the individual resources used by the Company to arrive at current costs.

General price levels were adjusted to the average level of the Consumer Price Index while current costs were adjusted by various specific indices which have risen at a different rate than the general inflation rate.

Current cost amounts for inventory were approximated using the FIFO inventory method, adjusted for price changes through the end of the year. Current cost of sales was determined using the LIFO inventory method, which is the same method used by the Company in its historical financial statements and accordingly, no adjustment was required. The current cost of property and equipment was determined by applying specific construction indices to historical cost. Current cost depreciation was based on the average current cost of properties during the year using the same depreciation methods and useful lives as used in preparing the historical financial statements.

The provision for income taxes included in the statement below is the same as reported in the historical financial statements. Present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation.

The following inflation disclosures represent a substantial departure from historical accounting principles. In the opinion of management, this information is not indicative of anticipated capital requirements nor the impact on net earnings. While the future replacement of assets may be made at prices higher than historical costs, inflation also tends to increase selling prices of merchandise which have a bearing on revenues and cash flow needed for replacement of assets.

Five Year Summary of Selected Financial Data Adjusted for Effects of Changing Prices

(In thousands of average fiscal 1984 dollars, except per share data)	*Fiscal year ended* January 29 1984	January 30 1983	January 31 1982	February 1 1981	February 3 1980
Net sales	$1,319,642	$1,075,502	$855,272	$717,949	$654,263
Historical cost information, adjusted for general inflation:					
Net earnings	$ 87,223	$ 60,958	$ 46,465	$ 28,360	$ 32,563
Net earnings per share	$1.53	$1.10	$.90	$.56	$.65
Net assets at year-end	$ 526,273	$ 404,159	$287,410	$239,808	$212,572
Current cost information:					
Net earnings	$ 86,284	$ 60,659	$ 45,732	$ 27,713	$ 30,788
Net earnings per share	$1.52	$1.10	$.88	$.55	$.61
Net assets at year-end	$ 540,059	$ 407,128	$286,336	$241,003	$213,936
Effect of increases in general prices and specific prices on inventory and property and equipment held during the year:					
Increase in general prices	$ 22,263	$ 14,809	$ 6,994	$ 32,256	$ 32,594
Increase in specific prices	16,835	20,496	9,494	21,272	21,855
Increase in general prices (under) over increase in specific prices	$ 5,428	$ (5,687)	$ (2,500)	$ 10,984	$ 10,739
Purchasing power gain from holding net monetary liabilities during the year	$ 3,453	$ 3,330	$ 5,442	$ 7,138	$ 8,544
Market price per common share at year-end	$33.88	$27.75	$15.78	$8.42	$7.04
Average consumer price index for fiscal year	299.4	290.0	274.2	249.1	219.8

At January 29, 1984, current cost of inventories was $274,836, and current cost of property and equipment was $360,510.

Statement of Consolidated Earnings Adjusted for Changing Prices for the Fiscal Year Ended January 29, 1984

(In thousands of average fiscal 1984 dollars)	*General Inflation (Constant Dollars)*	*Specific Prices (Current Cost)*
Net earnings, as reported	$92,317	$92,317
Adjustment to restate depreciation and amortization	(5,094)	(6,033)
Net earnings, as adjusted	$87,223	$86,284

10. Quarterly Financial Data (unaudited)

The following table sets forth certain unaudited quarterly financial information (in thousands except per share information):

Year ended January 29, 1984:

Quarter	*Net sales*	*Cost of sales*	*Net earnings*	*Net earnings per common share*
1st	$ 181,717	$124,075	$ 5,357	$ .09[a]
2nd	213,945	147,830	7,113	.12
3rd	220,689	150,049	6,061	.11
4th	703,291	459,304	73,786	1.30
Year	$1,319,642	$881,258	$92,317	$1.62

Year ended January 30, 1983:

Quarter	*Net sales*	*Cost of sales*	*Net earnings*	*Net earnings per common share*[a]
1st	$ 138,523	$ 94,149	$ 2,516	$ .05
2nd	167,781	116,467	4,431	.08
3rd	189,930	131,377	4,734	.08
4th	545,501	363,267	52,481	.92
Year	$1,041,735	$705,260	$64,162	$1.17

(a) *Restated for the three-for-two stock split effected on July 26, 1983.*

Location of Facilities

Toys "R" Us Stores

Alabama
Birmingham
Montgomery

California
Anaheim
Bakersfield
Burbank
Canoga Park
Cerritos
Chula Vista
Citrus Heights
Covina
Culver City
East San Jose
Fresno
Hayward
La Mesa
La Mirada
Newark
Oceanside
Ontario
Pleasant Hill
Redwood City
Rosemead
Sacramento
San Bernardino
San Diego
San Jose
Santa Ana
Santa Rosa
Serramonte
South Sacramento
Sunnyvale
Torrance
Van Nuys

Connecticut
Milford
Waterbury
West Hartford

Florida
Altamonte Springs
Cutler Ridge
Hialeah
Hollywood
Miami
Plantation
Tampa
West Palm Beach

Georgia
Atlanta-Northlake
Atlanta-Southlake
Cumberland

Illinois
Aurora
Bloomingdale
Burbank
Calumet City
Chicago Riverview
Chicago Southeast
Downers Grove
Highland Park
Joliet
Matteson
Melrose Park
Moline
Niles
North Riverside
Orland Park
Rockford
Schaumburg
West Dundee

Indiana
Merrillville

Louisiana
Shreveport

Maine
Portland

Maryland
Baltimore
Catonsville
Glen Burnie
Langley Park
Lanham
Marlow Heights
Rockville
Salisbury
Towson

Massachusetts
Auburn
Dedham
Framingham
Peabody
Springfield
Swansea
Woburn

Michigan
Dearborn
Flint
Grand Rapids
Lansing
Livonia
Madison Heights
Roseville
Saginaw
Southfield
Southgate
Sterling Heights

Nevada
Las Vegas

New Hampshire
Manchester
Newington

New Jersey
Cherry Hill
Deptford
East Brunswick
Eatontown
Jersey City
Lawrence Township
Livingston
Paramus
Toms River
Totowa
Watchung
Woodbridge

New York
Bayshore
Brooklyn Bay Parkway
Brooklyn Flatbush Ave.
Carle Place
Colonie
Commack
Douglaston
Huntington
Lake Grove
Levittown
Massapequa
Nanuet
Staten Island
Valley Stream
Yonkers

Ohio
Toledo

Oklahoma
Oklahoma City
Tulsa

Oregon
Clackamas
Portland
Tigard

Pennsylvania
Granite Run
King of Prussia
Montgomeryville
Oxford Valley
Philadelphia
Port Richmond
Philadelphia Northeast
Philadelphia South
York

Rhode Island
Warwick

Tennessee
Nashville

Texas
Arlington
Austin
Beaumont
Dallas
Fort Worth
Houston North
Houston Northwest
Houston Southeast
Houston Southwest
Houston West
Hurst
Mesquite
Red Bird
San Antonio Northeast
San Antonio Northwest

Virginia
Baileys Crossroads
Fairfax
Hampton
Norfolk
Richmond North
Richmond South
Tysons Corner

Washington
Lynnwood
Spokane
Tacoma
Tukwila

Wisconsin
Milwaukee North
Milwaukee South

Regional Warehouses/Distribution Centers—Toys "R" Us

Atlanta, Georgia
Beltsville, Maryland
Compton, California
Dallas, Texas
Houston, Texas
Kent, Washington
Mansfield, Massachusetts
Melrose Park, Illinois
Miami, Florida
Pennsauken, New Jersey
San Jose, California
Secaucus, New Jersey
Southgate, Michigan

Department Stores

Boston Stores
Latham, New York
Schenectady, New York

The Fair
Flint—East, Michigan
Flint—North, Michigan

Kids "R" Us Stores

New Jersey
Paramus

New York
Brooklyn Bay Parkway
Carle Place
Nanuet

Directors and Officers

Directors:

Robert A. Bernhard	Real Estate Developer
Albert E. Christie	Retired Senior Vice President, Manufacturers Hanover Trust Company
Milton S. Gould	Attorney-at-law; Partner—Shea & Gould
Charles Lazarus	Chairman of the Board and Chief Executive Officer of the Company
Norman Ricken	President and Chief Operating Officer of the Company
Norman M. Schneider	Former Chairman, Leisure Products Division of Beatrice Foods Company; Consultant
Moses Shapiro	Chairman of Executive Committee and Director, General Instrument Corporation; Consultant
Harold M. Wit	Managing Director, Allen & Company Incorporated, Investment Bankers

Corporate Officers:

Charles Lazarus	Chairman of the Board and Chief Executive Officer
Norman Ricken	President and Chief Operating Officer
Howard W. Moore	Executive Vice President—General Merchandise Manager
Seymore L. Ziv	Executive Vice President—Product Development
Brian K. Devine	Senior Vice President—Director of U.S. Toy Stores
Michael Goldstein	Senior Vice President—Finance and Treasurer
Ronald Tuchman	Senior Vice President—Divisional Merchandise Manager
Joseph R. Baczko	Vice President—International and President of International Division
Bruce C. Hall	Vice President—Director of Store Merchandising
Dennis Healey	Vice President—Data Processing
Harold Lane	Vice President—Personnel
Donald L. Margolis	Vice President—Controller
Michael P. Miller	Vice President—Real Estate
Vincent E. Porter	Vice President—Director of Store Operations
Ernest V. Speranza	Vice President—Advertising
Robert J. Weinberg	Vice President—Divisional Merchandise Manager
Lester Yassky	Secretary; Attorney-at-law; Partner—Shea & Gould

Divisional Presidents:

Joseph R. Baczko	International
John Livingston	Department Stores
Judy Stewart	Kids "R" Us

Corporate Data

Annual Meeting:
The Annual Meeting of the Stockholders of Toys "R" Us, Inc. will be held at the offices of Bankers Trust Company, 280 Park Avenue, New York, New York, on Wednesday, June 6, 1984 at 10:00 A.M.

Shareholder Information:
The Company will supply to any owner of Common Stock, upon written request to Mr. Nicholas Loizzi of the Company at the address set forth below, and without charge, a copy of the Annual Report on Form 10-K for the year ended January 29, 1984, which has been filed with the Securities and Exchange Commission.

General Counsel:
Shea & Gould, 330 Madison Avenue, New York, New York 10017

Independent Certified Public Accountants:
Touche Ross & Co., 1633 Broadway, New York, New York 10019

Registrar and Transfer Agent:
The First Jersey National Bank, One Exchange Place, Jersey City, New Jersey 07302

Common Stock Listed:
New York Stock Exchange, Symbol: TOY

The office of the Company is located at:
395 West Passaic Street, Rochelle Park, New Jersey 07662, Telephone: 201-845-5033

Design: [illegible] NYC

TOYS "R" US
395 West Passaic Street
Rochelle Park, NJ 07662

TOYS
KIDS
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